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# **Lebanon: War Economy Breeds Radicalism and Partition**

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**A Research Paper**

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December 1986  
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# **Lebanon: War Economy Breeds Radicalism and Partition**

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**A Research Paper**

This paper was prepared by [redacted] Office  
of Near Eastern and South Asian Analysis, with a  
contribution by [redacted]  
Office of Leadership Analysis. It was coordinated  
with the Directorate of Operations. [redacted]

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Comments and queries are welcome and may be  
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**Lebanon: War Economy Breeds  
Radicalism and Partition**

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**Summary***Information available  
as of 3 November 1986  
was used in this report.*

Lebanon's economy, which has shown amazing resilience despite a decade of civil war and foreign military intervention, is in crisis. Growing unemployment—affecting at least one-third of the active labor force—and falling real per capita income are deepening the country's political divisions and factional rivalries and intensifying narcotics and arms trafficking in Lebanon. Economic decline and weak central authority have contributed to increasing lawlessness among the militias, who have de facto control of much of the country. The militias' growing dependence on external support is encouraging foreign parties to buy influence among the rival factions.

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Although many Lebanese maintained relatively high personal incomes through the late 1970s and early 1980s, possibly higher than before the civil war, the economy and living standards fell sharply after the political turmoil that flared following the Israeli invasion in 1982. Emigration among skilled professionals increased, and Beirut's status as an Arab financial center virtually collapsed. Falling oil prices and the regional economic downturn have also depressed the economy. Since 1983 the Lebanese pound has depreciated by 91 percent and will fall further as capital flight increases and more residents choose to hold foreign currency assets. Finally, the Lebanese Government's expanding budget deficits and the lack of foreign aid have produced a staggering internal public debt relative to domestic output—\$3.2 billion in 1985, with interest payments exceeding total budget revenues. This debt absorbs most of the nation's financial resources and threatens the banking structure.

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Lebanon's political stalemate and violence have produced de facto partition in the country, changing the nature of the economy. The Maronite Christians and the Druze in particular are seeking economic autonomy. The proliferation of illegal ports and separate administrative organs are the most striking indicators of this trend. Lebanon's economy, however, can adapt to partition and Syrian occupation if goods and labor move freely and safely and if Lebanon can retain its liberal, open economic structure. The successful rise in branch banking is perhaps the best example of the economic response to partition.

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Lebanon's surging inflation—estimated at 70 percent annually in 1985—and general instability have affected some groups more than others. The formerly prosperous and influential middle class has been hardest hit. The Christian community, which has the largest middle class, has declined significantly in size. Over one-fourth of the estimated 1 million prewar Christian population have left the country since 1978. Middle-class expectations exceed those of the rural poor—mostly Shia—and they are less able to offset financial setbacks than Lebanon's small wealthy elite. The capital's growing Shia-populated southern slums are among Lebanon's most impoverished and have become a breeding ground for radicalism.

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For the near term, Lebanon's economy will muddle through with various sources of income, including external funding provided for the militias by Syria, Iran, Libya, Israel, the PLO, and overseas Lebanese. Over the medium to long term, a lasting political settlement is unlikely. The consequence will be further erosion of Lebanon's economy and de facto partition. Genuine reconstruction is impossible, and investment will decline further if assets cannot be protected. Lebanon's extensive financial and human resources at home and abroad could feasibly support economic recovery, but the country will probably never regain its former prominence as the commercial hub of the Middle East.

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For the United States, the political and social implications of economic deterioration in Lebanon are greater than the economic implications. Radicalization of the Lebanese population will grow, and the chaos will perpetuate Lebanon's role in international arms transfers, encourage more drug production and trade, foster more terrorism, and increase the likelihood of another Syrian-Israeli conflict.

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## Lebanon: War Economy Breeds Radicalism and Partition

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Eleven years of civil war and intermittent foreign occupation have severely damaged the Lebanese economy.<sup>1</sup> Before 1975, Lebanon enjoyed a high standard of living, as compared with its Arab neighbors, due mainly to its liberal economic policies and skilled entrepreneurial class. Per capita income in 1974 was more than \$1,250—the highest among Arab countries except for the small oil-exporting Arab Gulf states. The past decade of violence has curtailed most traditional economic activity:

- [ ] one-fourth of Lebanon's productive capacity was destroyed from 1975 to 1984.
- Payment inflows have fallen as prospects for political settlement grow dimmer, and capital flight is becoming more evident.
- Embassy reporting indicates 70-percent inflation last year and price increases of 100 percent for the first half of 1986.
- Much of the remaining skilled, professional class has decided to leave the country. [ ]

Nonetheless, until late 1983, Lebanon's economy proved resilient and retained its basic vitality. The open, liberal economic system functioned adequately—if not strongly—despite weak central authority. Real domestic output fell over 50 percent from 1975 to 1980, but per capita income remained strong through 1982, according to our estimates. [ ]

[ ] speculated that real disposable per capita income may have been higher in 1981 than before the civil war. [ ]

The Lebanese maintained personal incomes and living standards through high worker remittances, transit and intermediary trade, and the entrepreneurial skills of their bankers and merchants. Lebanon's principal export is its population. According to a Paris-based



Figure 2. Retail trade continues amid fighting. [ ]

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Lebanese periodical, over 860,000 Lebanese—primarily Christians of the upper and middle classes—emigrated from 1975 to 1984. This produced high remittances flowing into the Lebanese economy—over \$2 billion in 1980. Money inflows were bolstered by residents' interest earnings—\$678 million in 1981, [ ]—on bank deposits abroad. This is a function of emigration, increased capital flight, and the growing number of Lebanese banks that relocated overseas to escape the turmoil in Beirut. [ ]

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From a financial standpoint, the Lebanese economy displayed several strengths in the early 1980s. Foreign financial support for militias—including that from Syria, Iran, Libya, Israel, the PLO, and overseas Lebanese—injected money that trickled through the economy. Illegal activities such as drug cultivation and smuggling into Syria also stimulated Lebanon's economy. Illegal Syrian trade, for instance, may have generated over \$50 million a month, according to the US Embassy in Beirut. Current and capital inflows in 1980 were over \$3 billion, resulting in a payments surplus of about \$477 million. Payment inflows helped the Lebanese pound remain strong against the dollar until 1983. [ ]

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Following Israel's invasion of Lebanon in 1982 and the turmoil associated with the central government's inability to reestablish control in 1983, the nature of Lebanese economic problems changed. A situation bordering on anarchy in various parts of the country reduced Beirut's power to collect taxes, although government spending on salaries and services continued apace. In 1982-83 a US-backed Lebanese Government tried to extend its authority partly through expenditures. The collapse of these efforts was economically costly. Beirut's self-destructive spending policies generated an internal public debt in 1985 of over \$3.2 billion. Debt service payments currently exceed actual government revenues, forcing Beirut to continue borrowing from domestic banks to meet interest obligations. Industrial output fell as many factories in Beirut and Sidon were damaged or destroyed in fighting after 1982, and the 91-percent fall in the pound since 1983 has choked off imports of machinery and raw materials. In addition, the confessional struggle has increased the costs and dangers of internal travel, cutting off many industries and the agricultural sector from supply networks and export markets. [ ]

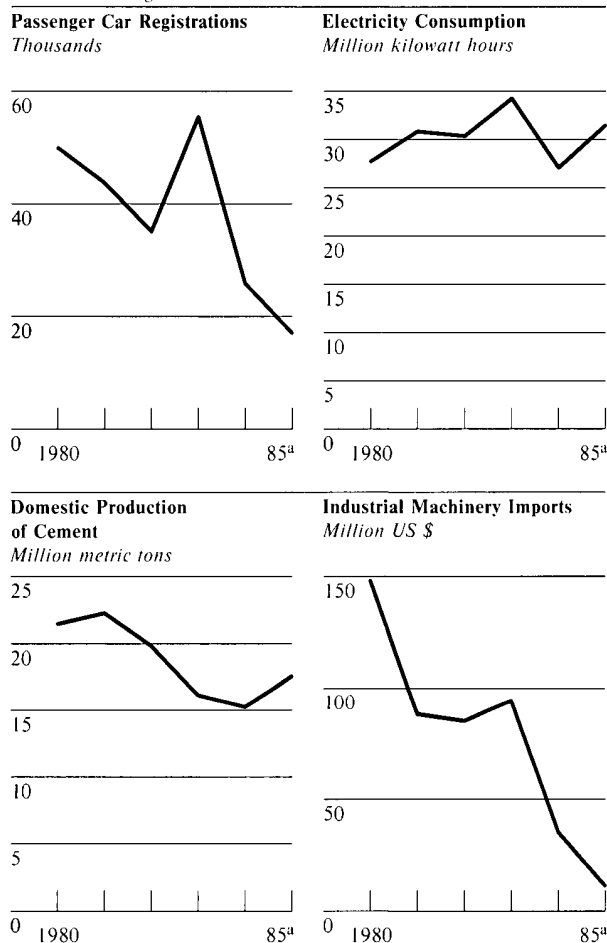
#### Precipitous Decline in 1984

The economy began to stagger in late 1983 with the demise of the Lebanese Army, signaling the collapse of central governmental institutions. Remittances from Lebanese working abroad have fallen from over \$2 billion in 1980 to \$500-700 million last year, according to our estimates based on foreign payments data. Lebanese bankers report that letters of credit through mid-1985 were only 40 percent of the 1983 level. The US Embassy in Beirut estimates that unemployment, once held to acceptable levels by emigration, affects about one-third of the active labor force. We believe the growing pool of unemployed youth may increase the numbers involved in full-time militia participation. [ ]

The economic decline manifests itself in social upheaval. Robbery and street crime have risen throughout Lebanon. Young, armed militiamen are most often the culprits. The once powerful and prosperous middle class is being steadily impoverished by inflation, and many are living off savings. The urban poor,

**Figure 3**  
**Lebanon: Economic Indicators, 1980-85**

*Note scale changes*



<sup>a</sup> Estimated.

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particularly the elderly and refugees, are facing increasing difficulty feeding themselves. There is, however, no evidence of famine or widespread shortages—except for periodic shortfalls of subsidized commodities like grains and petroleum products, which are

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Figure 4. Housewives protest high prices. [ ]

imported and distributed by the government. Regular supplies of many staples are attributable to Lebanon's open borders and relief from a variety of Western and Arab charitable organizations. [ ]

Several factors explain the faster decline in 1984 and the changing nature of Lebanon's current economic problems:

- Government internal debt is expanding rapidly as debt service rises and the tax base shrinks.
- Lebanon's bankers and merchants are reeling from falling oil prices, which have hurt the entire region.
- Public apprehension over the political situation has cut remittances and capital investment. [ ]

#### Massive Internal Debt

Lebanon's internal public debt is growing wildly, expanding 68 percent last year to over \$3.2 billion. The debt crunch stems from Beirut's large budget deficit—about \$1.2 billion in 1985, or half of estimated GDP. The Cabinet and parliament appear unable to cut spending or obtain external support, and Lebanon's tax system is not indexed, so receipts are not responsive to inflation. Customs duties traditionally provide 40 percent of revenues but last year fell to only one-fourth of total revenues, or \$69 million. Ports controlled by unofficial militias flourished, draining revenues from the Treasury. Many Lebanese no longer pay income tax or public utility bills, and the government is powerless to enforce collection. Press reports indicate that uncollected telephone bills amount to over \$40 million. [ ]

#### Lebanon's Costly Subsidy Policy

*We believe that a principal factor behind Beirut's growth in spending is the government's price subsidies on fuels and wheat. According to open sources, the Central Bank earlier this year sought to impose some discipline over the budget and refused to pay the oil import bill, which resulted in a severe fuel shortage in Beirut. The government has reduced the fuel subsidy since late 1985, raising the gasoline price 150 percent, but the steadily falling pound negated the price hikes. The subsidy structure traditionally ensures that Lebanon's gasoline prices are among the world's lowest—about US 37 cents per gallon before the most recent price increase. Low prices have encouraged widespread smuggling of fuel to Syria, Jordan, and even Israel until the IDF withdrawal. Embassy reporting indicates the Port of Beirut alone imported enough petroleum in 1984 to meet the country's estimated consumption.* [ ]

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*Beirut's extensive subsidies for grains allow raw wheat and wheat products to be sold well below the import cost, which encourages high consumption and reexports. Press reports indicate that Lebanon's Cereals and Sugar Beet Office sells wheat to millers for about \$12 per metric ton, while the world market price is about \$120:*

- *As a result, large volumes of wheat are reexported at substantial profits.*
- *Much subsidized wheat is bought to feed chickens and cattle rather than for human consumption.*

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*Subsidy costs have fallen sharply with the sharp decline in average world oil and wheat prices, but we believe that dismantling the subsidy structure will require that Beirut exercise political discipline, which it may not have. Eliminating or reducing price subsidies is a crucial first step in solving the government's massive financial problems. Until then, we expect budget deficits and domestic debt formation to persist.* [ ]

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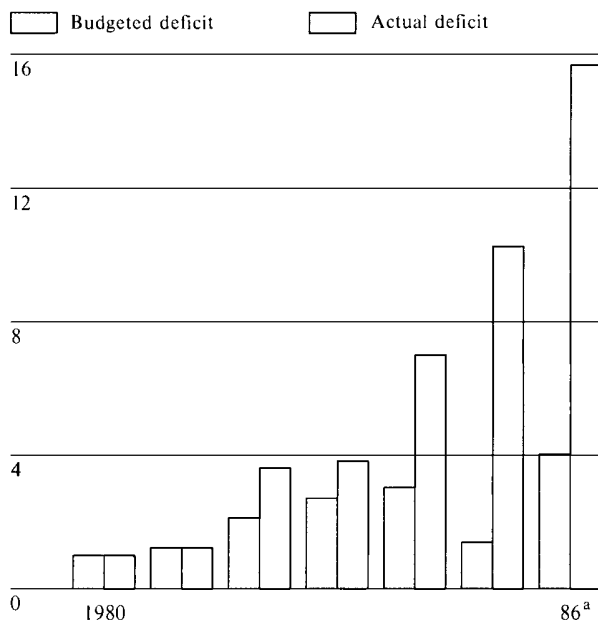
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**Figure 5**  
**Lebanon: Nominal Budget**  
**Deficits, 1980-86**

Index: 1980=100



<sup>a</sup> Projected.

Meanwhile, government spending is booming. Wages and indemnities accounted for 35 percent of the 1985 budget, although fewer than half of public-sector employees report to work. Official government statistics indicate that debt service represents over 26 percent of budgeted expenditures and actually exceeds revenues. The government is financing debt service payments through increased borrowing, which has absorbed much of Lebanon's private domestic savings. Beirut is increasingly turning to the Central Bank to finance the budget deficit. The Central Bank has pledged almost \$400 million in additional credit—four times last year's amount—to the government for 1986, according to a Middle Eastern economic periodical. This amounts to printing money and will spur inflation.

**Table 1**  
**Lebanon: Customs Receipts, 1980-86**

Million US \$

	Total	Beirut Port
1980	198	127
1981	114	55
1982	101	47
1983	306	211
1984	106	36
1985	69	22
1986 <sup>a</sup>	16	5

<sup>a</sup> Projected.

The government has few alternatives in its search for funds. A tacit agreement among Lebanon's leadership prohibits the government from employing its 9.22-million-ounce gold hoard with a market value of over \$3 billion to extricate itself from its debt imbroglio. The Treasury has resisted raising interest rates on Treasury bills, already near 20 percent, but banks are withholding subscriptions until rates move to higher, more profitable levels. Despite mounting problems, we believe government default on internal debt is not imminent because:

- As of June 1986, commercial banks still held \$4.7 billion in deposits, and Treasury bills are the best domestic investment opportunity.
- Inflation, which is probably well over 100 percent this year, will erode the real value of domestic debt.
- Debt formation may slow this year with the fall of some commodity prices. The US Embassy reports Lebanon's monthly fuel bill dropped from about \$50 million last year to \$23 million for 1986.

#### Flagging Gulf Economies

Lebanon's economy has long been closely tied to the Gulf economies, and the weak oil market has buffeted Lebanon by reducing trade and—to a lesser extent—worker remittances. Arab countries account for almost 90 percent of Lebanon's export and reexport

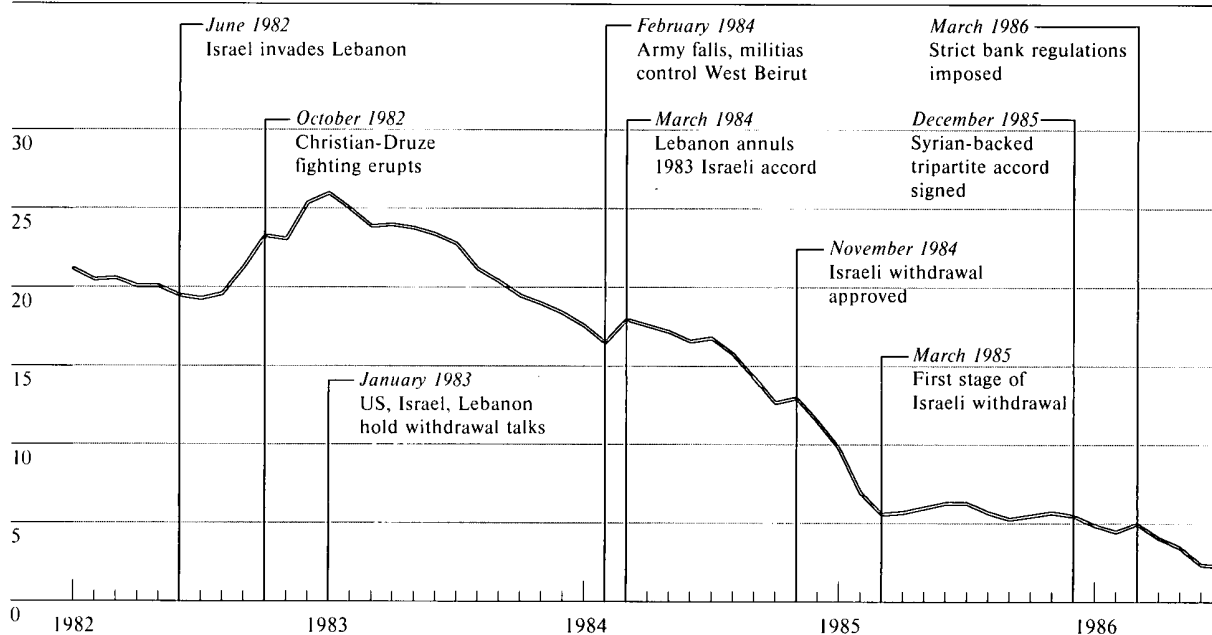
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**Figure 6**  
**Lebanon: Nominal Exchange Rate, 1982-86**

*US cents per pound*



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Many Lebanese banks have decentralized operations by establishing major branches throughout Lebanon. Open sources indicate that from 1981 to 1984 the number of branches rose from 473 to 640. There are now more than 80 commercial banks located in the Christian Ra's al Matn area alone. The Central Bank is headquartered in Muslim-controlled West Beirut and operates with a skeleton staff of Muslim employees because most Christian employees cannot report to work. The rise in branch banking, however, has increased bank exposure to robberies in the outlying areas. Press sources suggest that banks must pay protection money to dominant militias, strengthening factional control over territory. We believe the successful rise in branch banking over the past few years is a strong indicator of the partitionist trend in

Lebanon and of Lebanese resourcefulness in confronting the problems of factionalism and confessionalism.

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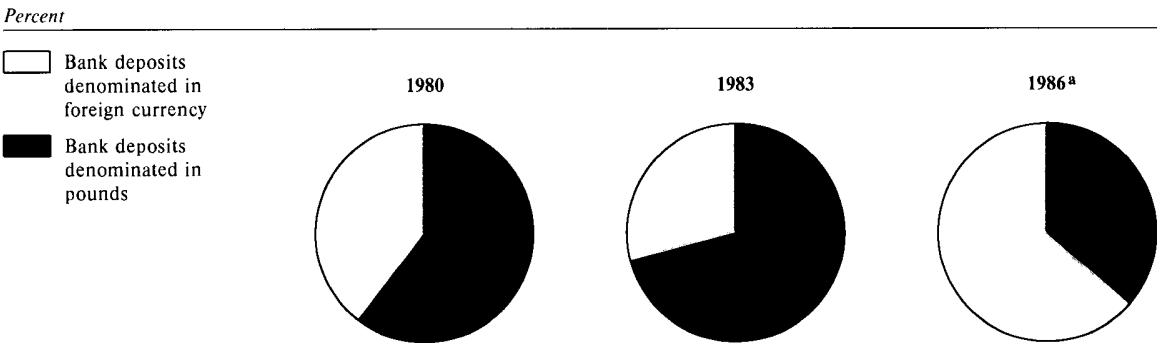
#### **Manufacturing and Trade Suffering**

Lebanon's manufacturing sector faces the most difficulty adapting to and overcoming war damage and instability. The manufacturing sector is mostly composed of small-scale, low-capital enterprises such as handicrafts, textiles, food and tobacco processing, wood, leather, and plastics. Cement production and oil

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**Figure 7**  
**Lebanon: Composition of Bank Deposits, 1980-86**



<sup>a</sup> Projected.

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refining are the only significant capital-intensive industries. According to a Lebanese economist, the inflation-adjusted value of industrial exports has fallen 80 percent in the decade since 1975. [redacted] estimates capacity utilization of the factories still operating in Lebanon was only 20 percent in 1985. The dramatic fall in output and trade stems from:

- Labor shortages due to emigration.
- Rising costs for imported capital goods, raw materials, and transportation.
- Continued destruction of fixed assets by the fighting.
- Competition from goods smuggled through illegal ports.
- Decreased bank credit for industry.
- Low inventories and poor worker turnout due to security concerns.
- Weak demand in domestic and Arab markets. [redacted]

There are signs of improvement, but we believe the deteriorating security situation will frustrate sustained recovery. Industrial exports for the first half of 1985 reached the highest level since the Israeli invasion. Moreover, Arab states in April 1985 lifted the partial boycott of Lebanese goods, which had been imposed to prevent imports of Israeli-origin goods that

had penetrated the Lebanese market. [redacted] Lebanese exports to Middle East countries had fallen 56 percent from 1980 to 1985. The decline in Lebanese exports to the rest of the world in that period was only 16 percent. [redacted]

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Lebanon's economic decline is closely tied to its trade performance. The Lebanese traditionally rely on imports for about 80 percent of their consumer goods. Export and reexport trade, especially to Arab countries, accounts for a major portion of income. [redacted] about 40 percent of Lebanon's exports are reexports. Total exports fell 63 percent from 1980 to 1985, while imports decreased by 53 percent, reflecting the general fall in income. Many Lebanese merchants have adapted to the security environment by cutting reexports and bypassing Lebanon entirely, simply acting as middlemen for trade between European and Arab partners. We estimate this trend has declined, however, with the fall in oil prices. [redacted]

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Trade Ties to Syria

Lebanon is intimately linked to the Syrian economy through legal and illegal trade, providing a major windfall to Lebanese merchants. Several Lebanese ports—Beirut and Tripoli, in particular—have been the traditional ports of entry for Damascus. Recorded Lebanese exports to Syria were \$81 million in 1980, but they fell to \$27 million in 1985, [redacted] Syrian importers rely on Lebanon for smuggled goods to compensate for the costs and delay associated with importing through official Syrian channels and in cases where certain goods cannot be imported legally. [redacted] Lebanese merchants accept Syrian pounds for sales of consumer and capital goods, which they send to the Gulf for resale to Syrian expatriate workers there. According to Embassy reporting last year, one major bank in Beirut indicated that 80 percent of its letters of credit were issued for goods transiting Lebanon for the Syrian market. The US Embassy in Beirut speculated last year that smuggling to Syria provided over \$50 million per month, although Syria's present economic crisis and the crackdown on smuggling have reduced the trade for 1986. [redacted]

Agriculture Remains Weak

Agriculture was hit hard in the 1982 Israeli invasion. Southern citrus groves served as battlefields, fields were neglected or abandoned, and transport was impeded, preventing agricultural products from reaching urban markets. Israel's phased withdrawal in 1985 and the reopening of the south to Beirut's commerce have helped southern farmers. [redacted] fruit exports to Arab customers increased over the past year. The sector is still threatened, however, by labor shortages and high costs for fertilizers and machinery. [redacted]

The US Department of Agriculture estimates crop production in Lebanon rose about 6 percent in 1985, although output remains well below the 1975-80 average. Lebanon's principal crops are citrus and apples, and the USDA estimates current production to be about 300,000 tons and 110,000 tons, respectively. Financial returns to farmers vary because of

Table 2  
Lebanon: Balance of Payments, 1980-86

Million US \$

	Trade Balance <sup>a</sup>	Exports	Imports	Balance of Payments <sup>b</sup>
1980	-2,775	1,032	3,807	477
1981	-2,803	991	3,794	570
1982	-2,594	879	3,473	263
1983	-3,104	638	3,472	-935
1984	-2,397	480	2,859	-1,355
1985 <sup>c</sup>	-1,411	386	1,797	250
1986 <sup>d</sup>	-1,100	400	1,500	-100

<sup>b</sup> Estimated from financial flows.  
<sup>c</sup> Estimated.  
<sup>d</sup> Projected.

transport problems, but demand for products locally and overseas has grown as the pound has depreciated. In the north, farmers' trade with the large Beirut market was hurt after closure of the Barbara Checkpoint on the Christian-Syrian dividing line between Beirut and Tripoli. Similarly, farmers in the Syrian-occupied Al Bika' (Bekaa Valley) have suffered from security problems around Zahlah—a traditional supply point for area farmers. [redacted]

Construction in Decline

Real estate and construction activity has varied throughout Lebanon, but high construction costs and limited commercial credit recently have weakened this traditionally strong sector. The continued fighting discourages real estate investment, and government policies have hurt as well. High prices for real estate through 1985 suggest that some expatriate Lebanese money was still flowing into real estate, but transactions and new construction have fallen off this year. Moreover, most rents in the cities are fixed by law and

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have become an unremunerative investment in Lebanon's inflationary environment. Although a bane to construction, rent ceilings are a boon for tenants, effectively eliminating housing costs for many residents under older leases. For example, in late 1985 longstanding tenants were paying the equivalent of \$50 a year for an average apartment in central Beirut. Meanwhile, the housing shortage, combined with renters' unwillingness to vacate their apartments, make new rental rates and sales prices prohibitive for most Lebanese. [ ]

Nevertheless, the pound's rapid depreciation this year probably has enhanced real estate's attractiveness for overseas Lebanese and resident holders of foreign currency. If peace somehow comes to Lebanon, the construction sector will probably face an upsurge in demand. For instance, a middle-class coastal apartment in Beirut sold for the equivalent of \$520 per square meter in late 1985. The same property would now probably cost under \$250 per square meter. Beirut's belligerent environment has encouraged real estate investment outside the capital, especially along the coast. Press reports indicate the North Ra's al Matn area around Juniyah in the Christian enclave is Lebanon's most active market. [ ]

#### Emerging Regional Economies

The entire country has suffered economic decline from the impact of Syrian and Israeli occupation and confessional violence. We believe that the prospects for economic recovery vary regionally according to the degree of order and stability. [ ]

#### South Lebanon Remains Depressed

The economy of south Lebanon practically ceased with the Israeli invasion in 1982 and barely functioned in the power vacuum following Tel Aviv's withdrawal in 1985, but prospects for economic recovery are brightening. [ ]

[ ] total exports from this area have recovered to 80 percent of their preinvasion level, with agricultural trade the most improved sector. The Shia Amal, Druze Progressive Socialist Party (PSP), and other militias maintain roadblocks on the main coastal highway that hamper commercial road traffic,

however, and some farmers and merchants may now ship goods to Beirut via the southern port of Tyre. [ ]

Before withdrawal, Israeli agricultural products largely displaced Lebanese products in the south, severely curtailing farm incomes in that region. Israel's principal northern port of Haifa served as an unofficial port for south Lebanon, effectively undermining Beirut's role in the region. The extent of Israel's market penetration is displayed by the dramatic decline in the volume of trade with Israel after the 1985 withdrawal:

- From 1983 to 1985, Lebanon's annual trade turnover with Israel fell from \$100 million to \$63 million, according to the Israeli press.
- By August 1985, three months after IDF withdrawal, the quarterly volume had shrunk to only \$2 million. [ ]

The intensity of conflict in the south between Israel and its surrogate, the Army of South Lebanon, and radical Shias and Palestinians will threaten the area's recovery. If political instability in the south persists, we believe the flow of Shia refugees to Beirut could grow again, further straining the resources of the war-torn capital. [ ]

#### North Lebanon's Fragile Status

In the north, especially around the industrial city of Tripoli, Syrian occupation has diverted attention from politics to economic activity and stimulated some rebuilding. Press reports indicate most residents were confident the Syrian entry in mid-1985 would spur the local economy. Embassy officials in Beirut report that commercial activity in Tripoli is still modest, but local officials say the security situation is under control and extensive repairs to buildings have been made in the last 18 months. Nevertheless, industrial output has not recovered from the extensive fighting of 1983-85 between Syrian troops and Muslim factions. Of the 1,200 factories in the north that accounted for 20 percent of national output, 35 percent have closed since 1980. A separate survey confirms that most have closed since 1984, and those still open are operating below 40 percent of capacity. [ ]

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**Bekaa Valley in Transition**

Syrian occupation has disrupted the traditional economy of the Bekaa Valley but has brought some stability. The valley has suffered less destruction than other areas in Lebanon, but it has been largely cut off from traditional markets such as the greater Beirut area. The valley is still a major farming area, comprising nearly 40 percent of Lebanon's total cultivable area, with cereals, vegetables, and citrus widely produced.

Drug cultivation has always existed in the Bekaa but has become much more extensive in Lebanon's chaotic environment. The major product is hashish, which requires little irrigation or fertilizer, and some farmers are turning to opium poppies as well. One medium-scale Bekaa hashish farmer told an Arab journalist that his annual profit was about \$80,000. The cultivation, processing, and distribution of drugs involve all the major parties in the Bekaa, including the Syrian military, various Shia factions, Sunni Muslims, and the Christian militias situated on the route to the coast. We estimate that possibly half of the cultivable land in certain areas of the Bekaa is devoted to drug production, and press reports indicate much of the area's agricultural laborers are involved in drug cultivation.

The economic impact of the drug trade on the Bekaa has been extensive. Press reports indicate that some farmers can afford foreign laborers, including Bedouins from Syria, for peak periods, and several small development projects in the region have been financed with narcotics money. Although many local farmers have been involved, large-scale operations are beginning to dominate the trade. We believe the enormous profitability and the range of players involved will perpetuate the northern Bekaa as a major center for drug production and trafficking.

**Militias Plundering for Profit**

Beneath the surface of Lebanon's traditional economy lies another layer of services and trade that sustains the economy. Some militias have established a "civil arm" that imposes taxes and provides public services. All the major militias—including the Christian Lebanese Forces, the Druze PSP, the Shia Amal and

Hizballah—aggressively solicit funds from local and foreign sources. Increasing competition between rival militias for funds, however, intensifies the factional struggle and further undermines the state. Among the sources of revenue for the militias are:

- Fees from unofficial ports operated by militias.
- Support from state sponsors and the PLO.
- Contributions from coreligionists at home and abroad.
- Fees collected at checkpoints throughout the country.
- Informal "taxes" imposed on local business.

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We believe that the Christian Lebanese Forces militia has the most sophisticated financial structure. This includes a computerized system to collect—or, in many cases, extort—taxes from businessmen, shopkeepers, and housewives. In return, the militia provides sanitation service and limited public works for East Beirut.

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In addition, the Christian militia controls several ports in the Christian enclave and leases the four most important ones to entrepreneurs for large sums. We believe that revenues from these port operations dropped significantly after Syria tightened its border in January 1986 to stem illegal imports and punish the Christian opposition to the tripartite accord. Syrian transit trade has partly recovered, however, and a Christian port operator commented to a US Embassy official in April that 80 percent of the cargoes unloaded in his port are for the Syrian market.

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We believe general economic decline and weak central authority will contribute to increasing lawlessness and reliance on smuggling and drug trafficking among the militias. The militia-controlled ports provide an excellent depot for drugs and arms trafficking, as well as for goods stolen from other Mediterranean ports. We expect Lebanon's economic decline to increase the militia's dependence on external support.

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### **Lebanon's Unofficial Ports**

*The emergence of several unofficial and militia-controlled official ports has reshaped the nation's economy over the years. The fees charged by these militia-operated ports are 60-70 percent below Lebanon's official port fees, and no customs duties are paid on goods entering these ports. The unofficial ports have lowered import costs but deprived the state of its principal source of revenue. Among the major illegally operated ports are:*

- Fifth Basin, Beirut. *This Lebanese Forces-controlled portion of Beirut Port is Lebanon's main illegal port.*
- Juniyah. *This small, shallow Lebanese Forces port serves as a transit point to Cyprus for travelers who avoid the Beirut Airport. We estimate about 20,000 travelers, almost all Christian, used the ferry service to Cyprus in 1985.*
- Ad Dubayyah. *This Lebanese Forces port is under expansion and bankrolled by the family of Finance Minister Chamoun.*
- Khaldah. *This Druze port is the most active non-Christian illegal port. It cannot handle large ships, however, which required the PSP to construct Al Jiyah.*
- Al Jiyah. *The Druze are building this container port and petroleum offloading facilities. It may be finished by the end of 1986.*
- An Nabi al Awza'i. *This port is controlled by Amal and can handle container traffic. It is located near Beirut Airport.*
- Tyre. *This Amal-controlled port handles a fairly low volume of traffic, due partly to an Israeli blockade.*
- An Naqurah. *This port was constructed in 1984 and is controlled by the Israeli-backed Army of South Lebanon.*



**Figure 8. Imports arriving at militia-controlled Port of Beirut.**

Foreign parties will probably take advantage of Lebanon's economic chaos to bid for influence among rival factions. Likewise, the cash-starved militias will probably press for more support from resident and overseas coreligionists in addition to increased robbery and extortion—developments that push street fighting to dangerous new levels.

### **Growing Partitionist Trend**

Economic partition is an emerging reality in Lebanon, but we believe the current political environment will frustrate efforts to create economically viable independent cantons. With no political settlement on the horizon, the Maronite Christians and Druze have sought to create ministates characterized in part by independent resources, institutions, and objectives. The Shia-dominated areas in the south, the Bekaa, and Beirut lack the financial and human resources, infrastructure, and organization of the other confessional ministates and are economically weaker.

Although politically divided, there is substantial economic cooperation and accommodation between the confessional groups. For example, Druze leader Jumblatt allows regular convoys to move from East Beirut, held by Christian Lebanese Forces, to the Jazzin area, controlled by the Christian Army of

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South Lebanon. In addition, private firms and governmental bodies such as the telephone service operate throughout the country, with Christian, Muslim, and Druze employees working in their respective cantons.

### **Christians Face Syrian Stonewall**

The Christian hardliners are particularly intent on achieving economic independence from other groups, and the Christian heartland has the largest concentration of wealth and business. The increased Syrian presence around their ministate, however, will frustrate Christian efforts to achieve partition. Likewise, the relative stability within the enclave is increasingly threatened by factional infighting, which could undermine the Christians' economic strength. As the Lebanese economy unravels, we expect temptations for the Christians to abandon traditional cross-confessional institutions and arrangements to grow. There have been several examples this year of the Christians' desire to erect independent economic institutions in their heartland, including public services and an independent telecommunications system and calls for a separate power grid, civilian airport, and possibly a Christian central bank.

Perhaps the best example of Syrian stonewalling of partition is the Maronite Christians' controversial alternative to Muslim-controlled Beirut International Airport—Halat Airport north of Beirut. Halat is primarily a Christian military facility, but it is privately financed and designed to offer medium-range commercial service for the Christian community. Formidable legal and logistic obstacles have slowed the project, but a major barrier is Syrian opposition, including the shelling of the runway by pro-Syrian militiamen last May. Although the Syrians have not spoken officially against Halat, we believe Damascus or its surrogates would intervene to prevent commercial service if Halat becomes operational, since it will increase the prospects of a permanent partition and subvert Damascus's role as a peace broker.

### **Druze Organize for Autonomy**

The Druze are attempting to erect an independent ministate in the Ash Shuf but will probably remain dependent on external support to sustain their economy.

Traditionally one of Lebanon's poorest confessional groups, the Druze lack a skilled middle class, indigenous resources and industry, and represent only 7 percent of Lebanon's population. In fact, Druze are barely a numerical majority within their own ministate.

Despite their economic vulnerabilities, the Druze have managed to erect a ministate under Walid Jumblatt's PSP—Lebanon's strongest militia—due to skillful leadership and tactical links to virtually all of Lebanon's contending parties. The Druze heartland in the Ash Shuf has its own capital at B'aqlin and social and administrative organs that direct economic, cultural, and educational activities. The main Druze port, Khaldah, provides the PSP with a revenue source and a possible supply link to the USSR—the principal arms supplier to the Druze. Other sources of income include remittances from overseas Druze and Palestinians, roadblocks, port fees, a Jumblatt-owned cement factory, and drug trafficking. US Embassy contacts in Beirut report, however, that production of bananas and apples in the Shuf has almost ceased since the exodus of Christians in 1985.

In response to growing financial problems, the Druze are seeking economic support from several sources.

Jumblatt is seeking to improve ties to the Christians. Over 80 Christian villages in the Shuf are empty, and Jumblatt wants Christian refugees to return because of their leading role in the region's agricultural sector.

Recent financial problems have prompted the PSP to reduce salaries 15 percent and boost taxes and transit duties on vehicles.

### **Shias in Disarray**

For the near term, we believe the Shias will not organize themselves economically. They are Lebanon's poorest and least cohesive confessional group—economically, geographically, and politically. Their

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principal militias, the moderate Amal and more radical Hizballah, are poorly financed at home and rely principally on outside military and financial support from Syria and Iran, respectively. Damascus's leverage over the Shias, from an economic standpoint, is enhanced by Syria's military control over the Bekaa and the possible extension of the Syrian security plan into the south toward Sidon. [ ]

Despite Amal's prominent military role in the south, the economic position of the Shia areas is weak. The Amal-controlled port of Tyre is used lightly, and most customs revenues are paid in Cyprus to the Israeli-backed Army of South Lebanon and enforced by an Israeli blockade, according to the US Consulate General in Jerusalem. Shia leadership is fragmented and preoccupied with the Amal-Hizballah rivalry, while the largely rural Shia population is unprepared to establish independent commercial and governmental institutions. In addition, the range of players in the power struggle for the south—including the Syrians, Druze, Christians, Israelis, and PLO—are all working to subvert the establishment of a Shia ministate. [ ]

#### Middle-Class Attrition

We believe that the most damaging long-term aspect of Lebanon's recent economic problems is the weakening of the Sunni and Christian middle classes. The Sunni Muslim population, which comprises 27 percent of the population, is well placed economically but has no significant militia. The wealthy who hold foreign currency accounts are largely unscathed by inflation and the declining value of the pound. The middle-class professionals, however, who are the most important factor in Lebanon's long-run economic performance, face a considerable decline in their traditional living standards. This attrition undermines Lebanon's economic prospects because it removes a major element of long-term stability. [ ]

Emigration, especially by Christians, will probably remain a major political and economic issue. According to [ ] a Lebanese

weekly, 78 percent of Lebanese emigrants between 1978 and 1984 were Christian. Combined with a declining birthrate, the exodus of Christians has reduced their share of the resident population from over 40 percent to about one-quarter since the civil war began. The growing gap between the relative size of the Christian and Muslim populations will probably aggravate confessional conflict by further threatening the Christian hold on power and strengthening Shia Muslim demands for political and economic equality.<sup>2</sup> [ ]

The rural population has been less severely hurt by economic crisis, and the majority are not radicalized solely by their material condition. The agricultural sector is performing adequately with increased domestic demand, narcotics, and the Syrian trade. The urban poor and refugees, however, have no means of support beyond the relief aid provided by various organizations, and there are virtually no employment opportunities for many young urban Shia men besides militia participation. The likely consequence will be greater violence and continued chaos. [ ]

#### Outlook and Implications for the United States

We believe that, as the civil war drags on and the prospects for a political settlement remain dim, Lebanon's economy will steadily decline. We believe the overseas Lebanese will grow more reluctant to repatriate earnings, cutting domestic incomes further. Without political resolution of some sort, genuine reconstruction is impossible. Investment will continue to decline if assets cannot be protected, and more wealthy and middle-class Christians and Muslims will move their families out of Lebanon. [ ]

<sup>2</sup> The Christian community, in their quest to legitimize their hold on political power, have traditionally included overseas Christians within their majority. The last official census, conducted in 1932, thus showed a 52 percent Christian majority. Today, disagreements abound over the size of confessional groups and the allocation of political power. [ ]

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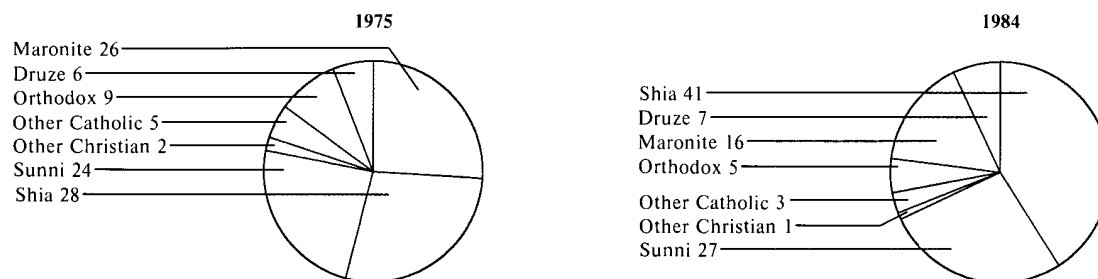
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**Figure 9**  
**Lebanon: Estimated Distribution of Confessional Groups,**  
**1975 and 1984**

Percent



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For the short term, Lebanon's role as principal battlefield for regional conflicts will provide opportunities for groups to sell their loyalties, regardless of their ideological commitments. Competition among the principal foreign parties embroiled in Lebanon—Syria, Iran, Libya, the PLO, and Israel—will ensure that money continues to flow to their surrogates. Although these “political remittances” bolster Lebanese personal incomes and the banking system, they will probably prolong the fighting. [ ]

Economic recovery is not beyond the reach of the Lebanese, but we do not expect the country to regain its former prominence as the commercial hub of the Middle East. The rise in the banking, insurance, and transportation industries throughout the region that accompanied the oil boom of the 1970s effectively displaced Beirut. We believe, however, that a political settlement could still spur significant economic recovery and mobilize the human and financial resources within Lebanon and overseas. [ ]

For the United States, the political and social implications of economic deterioration in Lebanon are greater than the economic implications. As the economy deteriorates, Beirut will be less able to repay its FMS

and other debts to the United States or finance its public-sector imports. Meanwhile, radicalization of the Lebanese population will probably grow, increasing the chance that new leaders will be less favorably disposed to US interests in the region. Lebanon's chaos will perpetuate its role as a scene for international arms transfers, fencing of stolen goods, and drug production and trafficking. The government's weak response will further damage the economy and increase the militias' control. The implication is increasing lawlessness, possibly more terrorism, as well as a destabilized setting for another Syrian-Israeli conflict on Lebanese territory. [ ]

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**Beirut's Southern Suburbs: Seat of Radicalism***Growing fundamentalist influence in Beirut* 

*The population of the southern suburbs has ballooned from about 50,000 before 1975 to possibly 700,000 with the influx of Shia refugees since the mid-1970s, causing severe housing and distribution problems. The southern suburbs' chronic housing shortage was worsened with the Israeli invasion in 1982 when almost 10,000 units in Beirut alone were damaged. In the absence of government authority, public and privately owned land in the southern suburbs was taken over for housing. A 1983 survey by the Shiite Supreme Council showed about 5,800 apartments housing 35,000 people were built illegally on public and private land. (*

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*West Beirut has been the main arena for most of Lebanon's conflicts. Formerly Lebanon's commercial center, West Beirut and the city's southern suburbs have suffered disproportionately in the fighting as the city has been divided along confessional lines. The fighting and poor security situation have hampered the flow of goods, causing periodic shortages of basic commodities like flour and gasoline and raising prices 10-20 percent above prices in East Beirut, according to Embassy reports. (*

*We believe that the Shia "belt of poverty" around Beirut offers fertile ground for proselytization of disaffected Shia youth by radical Shia groups. According to Embassy reporting, Hizballah transmits its revolutionary Islamic message to villages in the south through small communities of refugees who migrate between Beirut and Shia areas in the south. We believe Hizballah's success throughout Lebanon will largely depend on its growing appeal to a disaffected young population of the southern Beirut suburbs. (*

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